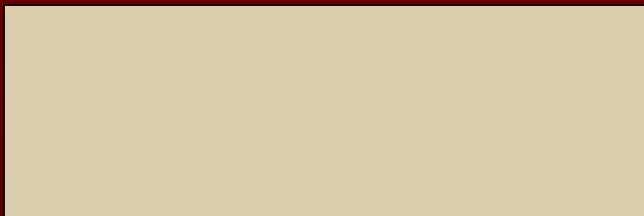


2008-2009 Annual Report



COLLEGE of CHARLESTON

INITIATIVE FOR PUBLIC CHOICE AND MARKET PROCESS



COLLEGE of CHARLESTON

INITIATIVE FOR PUBLIC CHOICE AND MARKET PROCESS

The Initiative for Public Choice & Market Process would like to acknowledge the generous support of our sponsors who in part make our program possible.



On the front cover: Left Robert Lawson, right Ben Rast, bottom left Jeffrey Lacker

Message From the Director



The department of economics and finance has sought support for the teaching and research they have conducted in the area of public choice and free market analysis. Beginning in the fall of 2008 we were fortunate enough to receive funding from the BB&T Charitable Foundation and the Charles G. Koch Charitable Foundation to build on our efforts. It is through this funding that we now have the Initiative for Public Choice & Market Process.

It has been an incredibly exciting and productive first year for the Initiative for Public Choice & Market Process. Through the support of my colleagues in the School of Business and Economics, across the College of Charleston, and within the business community we accomplished all of our goals and more. We sponsored nineteen events and had over 1,000 total participants. The Initiative

has three main focuses: the BB&T Free Market Process Speaker Series, student development, and faculty development.

Our BB&T Free Market Process Speaker Series consisted of five dynamic and insightful speakers from academia, the public sector, and the business world over the course of the year. We averaged nearly one hundred participants consisting of students, faculty and community members for each speaker.

The Initiative for Public Choice & Market Process is committed to providing students with the best opportunities to learn about the economic, political, and moral foundations of a free society. Students interact with our speakers both in the BB&T Free Market Process Speaker Series, and in our "Lunch with ..." Series. Our Economics Book Colloquium provides students a chance to read and discuss ideas in economics and politics they may not otherwise be exposed to in the classroom.

The BB&T Enterprise Award challenges students to write an essay examining the underpinnings of a free market economic system. This year students examined the current financial crisis. Students may also apply for fellowships to work on research mentored by faculty. In the fall of 2009 the economics and finance department will begin offering our course in Comparative Economic Systems where students can examine and analyze how various economics systems function and the consequences of these systems.

Our mission requires that we support our faculty who conduct research in the areas of public choice and the free market process. This summer we are funding five faculty members by providing them the necessary financial support to develop this important research agenda. In addition, the Initiative was able to fund travel to present their research at academic conferences.

The most gratifying part of all these endeavors is the positive response from the students to the program. Our inaugural Adam Smith Week had over 400 participants. This week was made possible through the support of other School of Business and Economics organizations such as the Student Real Estate Club, the College of Charleston's student chapter of Americans for an Informed Democracy, and the business community members of the Bastiat Society. We will continue with all of these events and programs going forward knowing that we will continue to grow and improve.

The success of the Initiative for Public Choice & Market Process depends on the support of foundations and private individuals who share its commitment to advancing the understanding and appreciation of free minds and free markets. We are deeply grateful to all who support our venture. To learn more about the Initiative for Public Choice & Market Process visit our web site www.cofc.edu/ipcmp or look us up on Facebook.

Sincerely,

A handwritten signature in blue ink, which appears to read "Peter T. Calcagno". The signature is stylized and fluid.

Peter T. Calcagno, Ph.D.
Associate Professor of Economics

TABLE OF CONTENTS

Year At A Glance	5
BB&T Free Market Process Speaker Series	6
Student Resources and Development	8
Faculty Research and Development	10
Special Events	12
About Us	14

2008-2009 Academic Year At A Glance

BB&T Free Market Process Speaker Series - 488 participants

- Dr. Gerald Dwyer, *Vice President, Federal Reserve Bank of Atlanta*
- Dr. Russell Sobel, *James Clark Coffman Distinguished Chair in Entrepreneurial Studies, West Virginia University*
- Dr. Michael C. Munger, *Professor and Chair, Political Science and Professor of Economics, Duke University*
- Dr. Robert Lawson, *Associate Professor of Finance, Auburn University*
- Mr. John A. Allison, IV, *Chairman, BB&T Corporation*

Student Development - 68 participants

1. Economics Book Colloquium - *Machinery of Freedom*, by David Friedman (16 participants)
2. BB&T Free Enterprise Award for the best investigative paper or case study by a student that examines public choice theory and the underpinnings of a capitalistic economy (3 winners)
3. Student Research Fellowships to support student-faculty research projects
 - 3 fellowships awarded for summer support
 - 1 fellowship awarded for conference travel
4. Information Sessions by Economics and Finance Faculty and Alumni (45 participants)
 - "Getting into Graduate School"
 - "Why Major in Economics and Finance?" (Two Sessions)
5. Distributed 52 copies of *Atlas Shrugged* by Ayn Rand to interested Economics Majors

Faculty Summer Research - 5 grants

- "The Stoic Justification of the Market" - Jennifer Baker, *Assistant Professor of Philosophy*
- "Testing the Marginal Trader Hypothesis with a Prediction Contest" - Calvin Blackwell, *Associate Professor of Economics*
- "Divided We Vote" - Peter T. Calcagno, *Associate Professor of Economics*
- "Internet Disclosure and the Free Enterprise System: An Empirical Analysis of IFR and Multinational Firms' Information Environment" - Jocelyn Evans, *Associate Professor of Finance*
- "RIP Social Cost of Gambling Studies" - Douglas M. Walker, *Associate Professor of Economics*

Special Events - 472 participants

- Adam Smith Week
 - "Is capitalism virtuous or scandalous?"* - Student Debate
 - "Business, One-Night Stands, and Polygamy"* - Lunch with Ben Rast, *Wealth Management at Morgan Stanley*
 - "Is America Number One?"* - ABC News film with John Stossel
 - "The Myth of Adam Smith"* - Dr. Jane Clary, *Professor of Economics, College of Charleston*
 - "A Conversation with Your Central Banker"* - Dr. Jeffrey M. Lacker, *President, Federal Reserve Bank of Richmond*
 - "A Brief History of Land-Use Patterns: The Market vs. the State"* - Vince Graham, *I'On Group*
- "The Call of the Entrepreneur" Movie Screening with the Bastiat Society
- "Great Myths of the Great Depression" - Lunch with Lawrence Reed, *President of Foundation for Economic Education*
- Information on Koch Associates Program - Stephen Sweet from Charles G. Koch Foundation

BB&T Free Market Process Speaker Series

Invited speakers address the underlying principles and institutions of a market economy. This year we had five speakers address students, faculty, and members of the Charleston community. Our speakers ranged from researchers at the Federal Reserve Bank, to academic economists, to a chairman of a major corporation. There were a total of six presentations made to over 450 participants during the fall and spring semesters.

Fall 2008



Dr. Gerald Dwyer

In October of 2008, Dr. Gerald Dwyer, *Vice President of the Federal Reserve Bank of Atlanta and President of the Association of Private Enterprise Education* was the first presenter in our BB&T Free Market Process Speaker Series. He gave two talks at the School of Business and Economics.

- 1) *"Financial Turmoil of 2007-08"* for students, faculty and the business community
- 2) *"The Great Depression of 2008?"* for students and faculty. These talks were timely in their examination of the current economic situation.

"Dr. Dwyer's presentation was informative and beneficial to anyone with concerns about our economy."

- Senior, Business Administration

"I would like to attend another presentation by Dr. Sobel. I think his presentation could have been extended or could be made into a series of lectures."

- Senior, Business Administration Major



Dr. Russell Sobel

In November, Dr. Russell Sobel, the *James Clark Coffman Distinguished Chair in Entrepreneurial Studies* at West Virginia University, addressed students and faculty with his talk *"Economic Freedom, Entrepreneurship, and Prosperity."* The Initiative also arranged for him to speak with business professionals in the community at the monthly Bastiat Society Meeting, where he discussed his ideas for *"Unleashing Capitalism."*

BB&T Free Market Process Speaker Series

Spring 2009



Dr. Michael Munger

In January, we resumed the BB&T Free Market Process Speaker Series with Dr. Michael Munger, Professor of Economics and Political Science from Duke University. He impressed upon our students the importance of the price system with his presentation *"Three Parables of Pricing: Gouging, Recycling, and the Bendy Bus."*

"I believe Professor Munger's presentation was useful to anyone who attended. All students should be encouraged to attend more of these speakers in the future."
- Junior, School of Business and Economics

In March, the Initiative held Adam Smith Week, which concluded with Dr. Robert Lawson from Auburn University. Dr. Lawson is the Co-Director of the Center for International Finance and Global Competitiveness, and the Director of the Economic Freedom Initiative. Students and faculty were provided with empirical evidence on the role of economic freedom in his talk *"The Concept, Measurement, and Importance of Economic Freedom"*



Dr. Robert Lawson

"I thought it was super informative. It helps to give legitimate information to back up the idea that the free market is best!"

- Senior, Accounting Major, on Robert Lawson



Mr. John A. Allison, IV

Our final speaker in the BB&T Free Market Process Speaker Series was Mr. John A. Allison, IV, Chairman and former CEO of BB&T Corporation. Mr. Allison spoke to students, faculty, and members of the Charleston business community on a topic that is vital to the workings of a free market economy, but lately seems to be missing from many businesses: *"Principled Leadership."* Mr. Allison outlined the core values that have made BB&T one of the largest and most successful financial institutions in the Southeast today.

"A gifted speaker and an extremely interesting presentation."

- Senior, Political Science and Business Administration Major, on John Allison

Student Resources & Development

The Initiative for Public Choice & Market Process seeks to promote the benefits of free markets and private enterprise to all of our students. The economics and finance department faculty demonstrate the power of economic principles to our students in their business, political, and personal lives, and provide them with the analytical skills to use these tools throughout their lives and careers. Creating an understanding that the benefits of liberty help with the ethical foundations of society. Here are just some of the ways we work with students at the College of Charleston.

Student Interns



Peter Neiger

Peter is a Senior Economics major and Political Science minor. He has interned with the Initiative since Fall 2008. He is also Student Government Association Vice President, Travel Coordinator for Student's in Free Enterprise's Technology for Africa Project, and the Community Service Chairperson for Phi Gamma Delta.



Jamie Shafer

Jamie is a Junior Economics and History major and African Studies minor. She began working as an intern for the Initiative during the Spring 2009. Over her three years at the College of Charleston, Jamie has been involved in the Student Government Association, Americans for Informed Democracy, and Honor Board.

Student Research Fellowships

The Initiative for Public Choice & Market Process provides funding to support student-faculty research projects. Students may apply for up to \$1,000 to serve either as a research stipend or travel funds to attend a conference and present their research.

- Faculty with research projects related to the area of free-enterprise, political economy, or public choice economics may request the aid of a student research fellow.
- Students may initiate a research project or presentation of research with the support of a faculty member.

This year we provided four students with research funding:

- Andrew Smith, Senior Business Administration Major
- Patricia Grant, Senior Economics Major
- Kenneth Chandler, Senior Economics Major
- Whitney Whitson, Junior Economics Major



John Allison, Chairman of BB&T

Student Resources & Development

BB&T Free Enterprise Award

The Initiative awards a cash prize each year for the best investigative paper or case study by a student that examines the underpinnings of public choice theory and capitalistic economies. The question for our first year was pulled straight from the current economic situation.

2008-2009 Academic Year Essay Question

Financial Meltdown 2008 – Does the Free Market Work As Promised?

This year's winners:

First place \$750

- Patrick Lynch, Senior Economics Major
"Does the Free Market Work?"

Second place \$400

- Kenneth Chandler, Senior Economics Major
"Free Markets and Economic Prosperity: A National and Global Analysis"

Third place \$150

- Nicholas Diego, Junior Economics Major
"What Free Market?"



Left to right: Kenneth Chandler, Nicholas Diego, and Patrick Lynch



Economics Book Colloquium

In Spring 2009, we began a new discussion seminar for students interested in free markets, capitalism, and the role of government in society. Sixteen students and two faculty members met twice a month to discuss the *Machinery of Freedom*, by David Friedman. The book examines the privatization of government functions. The book colloquium will be a regular feature each semester.

Beyond the Classroom

In conjunction with the Charles G. Koch Foundation, the Initiative has been able to provide students with opportunities after graduation such as the Koch Associates Program, a year long experience working in the area of non-profits. In addition, students are partaking in week long summer seminars with the Institute for Humane Studies (IHS). IHS is an organization that assists undergraduate and graduate students who have an interest in individual liberty.

This year, Peter Neiger, senior economics major will begin the Koch Associates Program following graduation.

Three undergraduate will be attending summer seminars with IHS.

- Jamie Shafer, Junior Economics Major
- Keegan Gaeng, Sophomore Economics Major
- Luca Gattoni-Celli, Freshman Economics Major

Faculty Research and Development

The Initiative for Public Choice & Market Process has an ongoing program to solicit research proposals and fund faculty research. The Initiative provides summer research grants for faculty members to conduct and publish research in the field of free enterprise and political economy and is specifically interested in supporting projects in the field of Public Choice. This year we funded five faculty members for \$25,000.

Summer 2009 Research Recipients



Calvin Blackwell
Associate Professor of Economics
"Testing the Marginal Trader Hypothesis with a Prediction Contest"

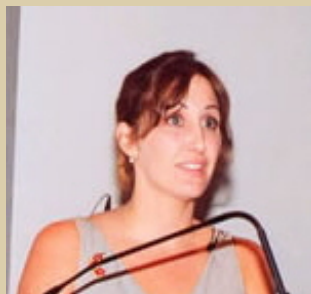
Abstract

The Marginal Trader Hypothesis posits that a small group of well-informed traders keep an asset's market price equal to its fundamental value. Forsythe et al. base this claim on indirect evidence from U.S. presidential prediction markets. This research tests the Marginal Trader Hypothesis by examining a decision task that precludes marginal traders. Specifically, participants are asked to predict the outcome of the 2008 U.S. Presidential Election, with the most accurate prediction earning a prize of \$100. This task is the same as that of the prediction market and provides an incentive for accuracy. By comparing the performance of these two institutions, the validity of the Marginal Trader Hypothesis may be evaluated.

Abstract

This paper attempts to justify the market ethically. The possibility of this is, of course, something Rawlsian political liberalism denies. Yet Rawls' reasons for rejecting ethical justification are based on his brief analysis of Mill and Kant's theories. He and other Political Liberals fail to consider the various types of ethical theory, and they overlook the justifiatory benefits of an ethical theory with a bi-level account of value. Stoic ethical theory has this feature, and my argument is that Stoic virtue theory justifies free markets and rebuffs political justifications that deny the relevance of increases in welfare. This paper draws explicitly on ancient Stoic political theory, but focuses on contemporary debates in political theory.

Jennifer Baker
Assistant Professor of Philosophy
"The Stoic Justification of the Market"



Jocelyn Evans
Associate Professor of Finance
"Internet Disclosure and the Free Enterprise System: An Empirical Analysis of IFR and Multinational Firms' Information Environment"

Abstract

The purpose of this research is to analyze the relationship between internet financial reporting and firm value for multinational firms located in different information environments. This analysis will provide important information to both academics and practitioners who are interested in disclosure and its impact on the efficiency of the capital markets in a free enterprise system-the United States of America. My approach is unique to the political policy economics literature.

Faculty Research and Development



Peter T. Calcagno
Associate Professor of Economics
"Divided We Vote"

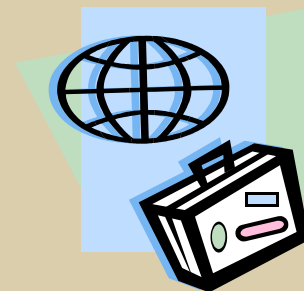
Abstract

Political economists use "divided government" to describe circumstances in which different political parties control different branches of governments. The issue of divided government has been of interest to economists on both a theoretical and empirical level. One main concern has been whether a divided government constrains in terms of fiscal policy or legislation production. While the literature examines the *effects* of divided government on fiscal decision making, little has been done to explain why constituents often support divided government. I propose to study the factors that matter to citizens when voting for divided government. This is the first study to examine the empirical determinants of divided government, and whether any of these factors indicate if these voting decisions are done with the intention of constraining government action.

Abstract

Over fifteen years after commercial casino gambling spread across the U.S., researchers, policymakers, and interest groups continue to wrangle over how to measure the social costs of gambling. After numerous research papers and impact studies, no consensus has been reached. This project examines the history of the "social cost" debate, and explains why social cost estimates should not be relied upon in making important policy decisions. One reason for this is difficulties in defining and measuring social costs. More importantly, when voters and policymakers focus on cost-benefit data, they typically overlook more fundamental issues, such as consumer sovereignty, property rights, and their proper role of government in a free society. Through an examination of past research and policy decisions on casino legalization, the paper argues that social cost of gambling studies should be regarded as unreliable and inappropriate for informing policy debates.

Douglas M. Walker
Associate Professor of Economics
"RIP Social Cost of Gambling Studies"



Travel Grants

In addition, to the financial support provided to conduct research the Initiative has been able to provide funding for our faculty to attend conferences to present their research. This year we were able to provide funding to five faculty members.

Conference on the Virtue of Temperance at Viterbo University

- Jennifer Baker

Economic Science Association

- Calvin Blackwell

Association of Private Enterprise Education

- Peter Calcagno
- Mark Witte

Western Economic Association

- Douglas Walker

Special Events

In March, we had our inaugural Adam Smith Week, an intensive week of events that exposed students to the ideas of market process and economics in a variety of ways. We had eight events over five days that included speakers, a movie, and information sessions on the economics major. The program was widely attended with over 400 participants and created an opportunity for us to cooperate with faculty and students across the entire campus. This annual event will be the focus of the spring semester and an event we anticipate students will look forward to each year.



Adam Smith Week: An Exploration of Political Economy and the Invisible Hand

"Is capitalism virtuous or scandalous?
What is the government's role in regulating
the Market?"

Student Debate

Moderated by Dr. Jennifer Baker, *Assistant
Professor of Philosophy, College of
Charleston*

"Business, One-Night Stands, and
Polygamy"

"Lunch with ..." Ben Rast,
Wealth Management at Morgan Stanley

"Is America Number One?"

ABC News film with John Stossel
Follow-up discussion moderated by Dr.
Doug Walker, *Associate Professor of
Economics, College of Charleston*

"Why Major in Economics and Finance?"

Student information sessions

"The Myth of Adam Smith"

Dr. Jane Clary, *Professor of Economics,
College of Charleston*

"A Conversation with Your Central Banker"

Dr. Jeffrey M. Lacker, *President, Federal
Reserve Bank of Richmond*

"A Brief History of Land-Use Patterns: The
Market vs. the State"

Vince Graham, *I'On Group*

"The Concept, Measurement, and
Importance of Economic Freedom"

Dr. Robert Lawson, *Associate Professor of
Finance, Auburn University*



**"Loved Adam Smith Week! Do it again
next year, please!"**

- Freshman, College of Charleston

Special Events



Ben Rast, President of the Bastiat Society

"Lunch with ..." Series

It is our goal to create an environment where students can interact with speakers in a casual and informal setting so they can ask questions and discuss issues related to the speakers' areas of expertise. Thus, we have our "Lunch with ..." Series. This year we had three of these events.

"Great Myths of the Great Depression"

Lawrence Reed, *President of the Foundation for Economic Education*

"Business, One-Night Stands, and Polygamy"

Ben Rast, *Wealth Management at Morgan Stanley*

Robert Lawson, *Associate Professor of Finance Auburn University and Director of the Economic Freedom Initiative*



Jeffrey Lacker, President Federal Reserve Bank of Richmond

Outreach

Strong support outside of the College of Charleston from our foundation sponsors and from the business community has created an opportunity for outreach. We are taking advantage of these connections to discuss free market opportunities that exist after graduation and convey the benefits of markets to the members of the business community. By sharing speakers and contacts with the Bastiat Society, we have created a synergy that benefits both students and their members.

Information session on Koch Associates Program

Stephen Sweet, *Program Coordinator, Marketing and Recruiting, Charles G. Koch Charitable Foundation*

"The Call of the Entrepreneur"

Movie Screening with the Bastiat Society

"Unleashing Capitalism"

Russell Sobel speaking to the Bastiat Society



Stephen Sweet, Koch Foundation

About Us

Founded in the Fall of 2008 with a generous gift from the BB&T Charitable Foundation and the Charles G. Koch Charitable Foundation, the Initiative for Public Choice & Market Process is designed to examine and stimulate discussion of the following topics:

- The role of government institutions in a capitalistic society
- The relationship between government and the individual
- The relationship between political and economic freedom
- The moral structure of a free market economy

Mission

The Initiative for Public Choice & Market Process advances the understanding of the economic, political and moral foundations of a free market economy. The Initiative supports the growth and development of teaching and research at the College of Charleston School of Business and Economics, while engaging students and the greater Charleston business community.

Objectives

To achieve our mission the Initiative sponsors the following:

- BB&T Free Market Process Speaker Series
- Student Development
- Faculty research in the areas of Public Choice and Market Process

What is Public Choice?

Economics traditionally focuses on the behavior of firms and consumers and how individuals interact in market settings. Public choice builds on economic and political theories to analyze the behavior of voters, candidates, legislators, bureaucrats, and the institutions under which they operate. Public choice uses modern economic tools to study problems that are traditionally in the sphere of political science. (A more general term is "political economy", an earlier name for "economics".) In particular, public choice models the behavior of voters, politicians, and government officials as (mostly) self interested agents and analyzes their interactions under a variety of institutional settings. Public choice analysis has roots in positive analysis ("what is") but is often used for normative purposes ("what ought to be"), to identify a problem or suggest how a system could be improved by changes in institutions.

COLLEGE *of* CHARLESTON

INITIATIVE FOR PUBLIC CHOICE AND MARKET PROCESS

The College of Charleston is a nationally recognized, public liberal arts and sciences university located in the heart of historic Charleston, South Carolina. Founded in 1770, the College is among the nation's top universities for quality education, student life and affordability. The College offers a distinctive combination of a beautiful and historic campus, modern facilities and cutting-edge programs.

The College of Charleston Foundation is a 501(c) 3 non-profit organization incorporated in 1970 under the laws of the State of South Carolina as an educational, charitable, eleemosynary foundation to promote educational, research, and other programs of the College of Charleston. Make a donation through the College of Charleston Foundation's website. Designate your donation for "Other" and write "Initiative for Public Choice & Market Process" in the comments section after entering your credit card information.

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